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SENSITIVE
SIPDIS

DEPT PASS AID AFR/SD FOR CURTIS, ATWOOD AND SCHLAGENHAUF
DEPT PASS TO USTDA-PAUL MARIN, EXIM-JRICHTER AND KJACKSON
DEPT PASS TO USTR-AGAMA
JOHANNESBURG FOR NAGY
USDOE FOR GEORGE PERSON
TREASURY FOR PETERS AND IERONIMO
DOC FOR 3317/ITA/OA/BURRESS AND 3130/USFC/OIO/ANESA/REED

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SUBJECT: NIGERIA: THE GON TEMPORARILY TAKES OVER FIVE BANKS

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SENSITIVE BUT UNCLASSIFIED - HANDLE ACCORDINGLY.

¶1. (SBU) Summary: The Central Bank of Nigeria fired the senior management of five banks following a financial viability audit that indicated the banks faced collapse due to excessive non-performing loans and over-exposure to capital markets and the downstream oil and gas sector. The CBN injected 400 billion Naira (\$2.5 billion) into the banks to ensure their liquidity. Fourteen other banks are undergoing similar audits. Banking and finance contacts, along with politicians and civil society groups like the Nigerian Bar Association, largely hailed the CBN action as a blow against corruption and opaque bank lending practices. End Summary.

¶2. (SBU) On August 14, Central Bank of Nigeria (CBN) Governor Lamido Sanusi summoned the managing directors of the Nigeria's private banks to discuss the CBN's ongoing bank audits and concerns over the health of the Nigerian banking sector. Afterwards, he met individually with and fired the Managing and Executive Directors of Afribank, Finbank, Intercontinental Bank, Oceanic International Bank, and Union Bank. (Note: Sanusi, formerly the MD of First Bank and an expert in risk management, was recently appointed by President Yar'Adua with the mandate to examine the health of the banking sector. End Note).

¶3. (SBU) At a subsequent press conference, Sanusi stated that of the ten banks audited so far, the following were judged to be sound: Diamond Bank, First Bank, United Bank of Africa, Guaranty Trust Bank, and Sterling Bank. Fourteen other banks remain under examination and their financial health should be known by mid-September.

¶4. (SBU) According to the CBN, the audits discovered that the five sanctioned banks have non-performing loans (NPL) ranging from 19 to 48 percent, which was attributed to poor corporate governance, lack of good credit risk management, and excessive exposures to the capital and the downstream oil and gas markets. The CBN also found these banks to be undercapitalized for their current levels of operation. As of May 31, the banks' liquidity ratio was 17 to 24 percent, while the minimum regulatory requirement is 25 percent. Together, the five banks account for 39.93 percent of loans, 29.99 percent of deposits, and 31.47 percent of total assets. These banks were also regular beneficiaries of inter-bank market funds and liquidity support from the CBN, which the CBN took as evidence of illiquidity.

¶5. (SBU) The CBN Governor, invoking his authority under the Banks and Other Financial Institutions Act of 1991, appointed the

following as interim Managing Directors:

--John Aboh, MD/CEO Oceanic International Bank Plc (replacing Cecilia Ibru);
--Mahmud L. Alabi, MD/CEO Intercontinental Bank Plc (replacing Erastus Akingbola);
--Nebolisa Arah, MD/CEO Afribank Plc (replacing Sebastian Adigwe);
--Suzanne Iroche, MD/CEO Finbank Plc (replacing Okey Nwosu); and
--Funke Osibodu, MD/CEO Union Bank Plc (replacing Berth Ebong).

¶16. (SBU) The CBN Governor, saying that changing management alone would not solve the problems, also injected 400 billion naira (\$2.5 billion) into the five banks to stabilize them. He emphasized that three of the five banks are systemically important to the overall economy as they hold significant assets and deposits in the banking sector. He stressed that this is a temporary measure, and that the GON does not intend to hold shares in the banks for long and will divest its holdings as soon as new investors recapitalize them. He added that the names of bank debtors will be published in the newspapers and that he will ask law enforcement to help recover funds.

¶17. (SBU) Olusegun Adeniyi, spokesman for President Yar'Adua, assured the public on August 16 that the GON will guarantee the safety of bank deposits and will continue to demand best corporate practices and better credit administration from bank management. As part of this effort, President Yar'Adua over the weekend nominated Kingsley Chiedu Moghalu, a former senior United Nations official, to be the new CBN Deputy Governor to oversee bank governance issues.

¶18. (SBU) As a confidence building measure, newly appointed MD/CEO of Oceanic International Bank Plc John Aboh on August 16 assured a press conference that his bank's depositors are safe and that the CBN had pumped 100 billion naira (\$632 million) into his bank's coffers. On August 17, the Nigerian Stock Exchange announced that

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the shares of the five banks had been suspended for two weeks to protect investors from capital erosion.

¶19. (SBU) Cecelia Ibru, the former Managing Director of Oceanic International Bank, complained to the media that the CBN had neither shared the results of its audits nor consulted with her before taking its decision. The International Monetary Fund (IMF) Country Director told us that though they appreciate the CBN's intentions, they were concerned by dissolution of bank management via the media since it could have triggered widespread panic in the banking and financial sector. The IMF had presented to the CBN in late July the results of its stress tests on Nigerian banks, which showed that some banks could experience liquidity challenges but the overall banking system was resilient.

¶10. (SBU) Comment: Reaction to the CBN action has been generally positive. Business contacts noted that the new management teams at the five banks are well and favorably known as bankers, while politicians and civil society groups like the Nigerian Bar Association hailed the action as a blow against corruption since many of the non-performing loans are assumed to reflect unsound or even fraudulent activity.

¶11. (U) This cable was coordinated with Consulate Lagos.

MCCULLOUGH